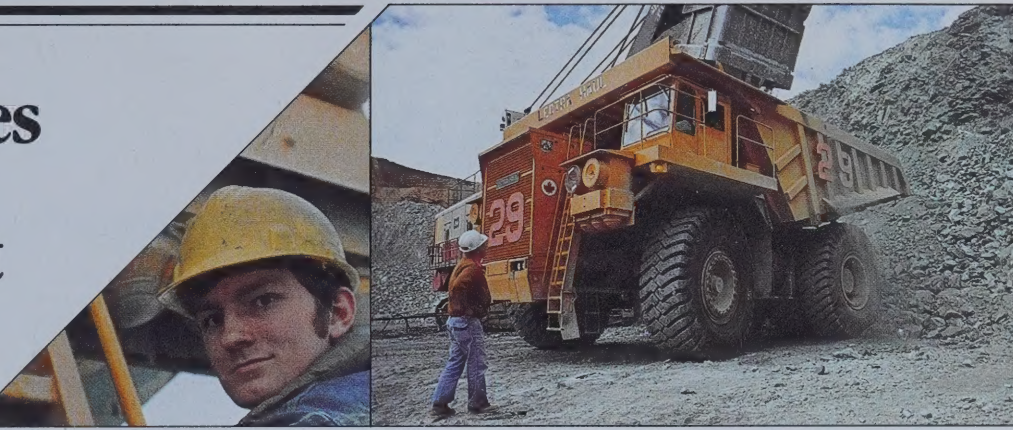
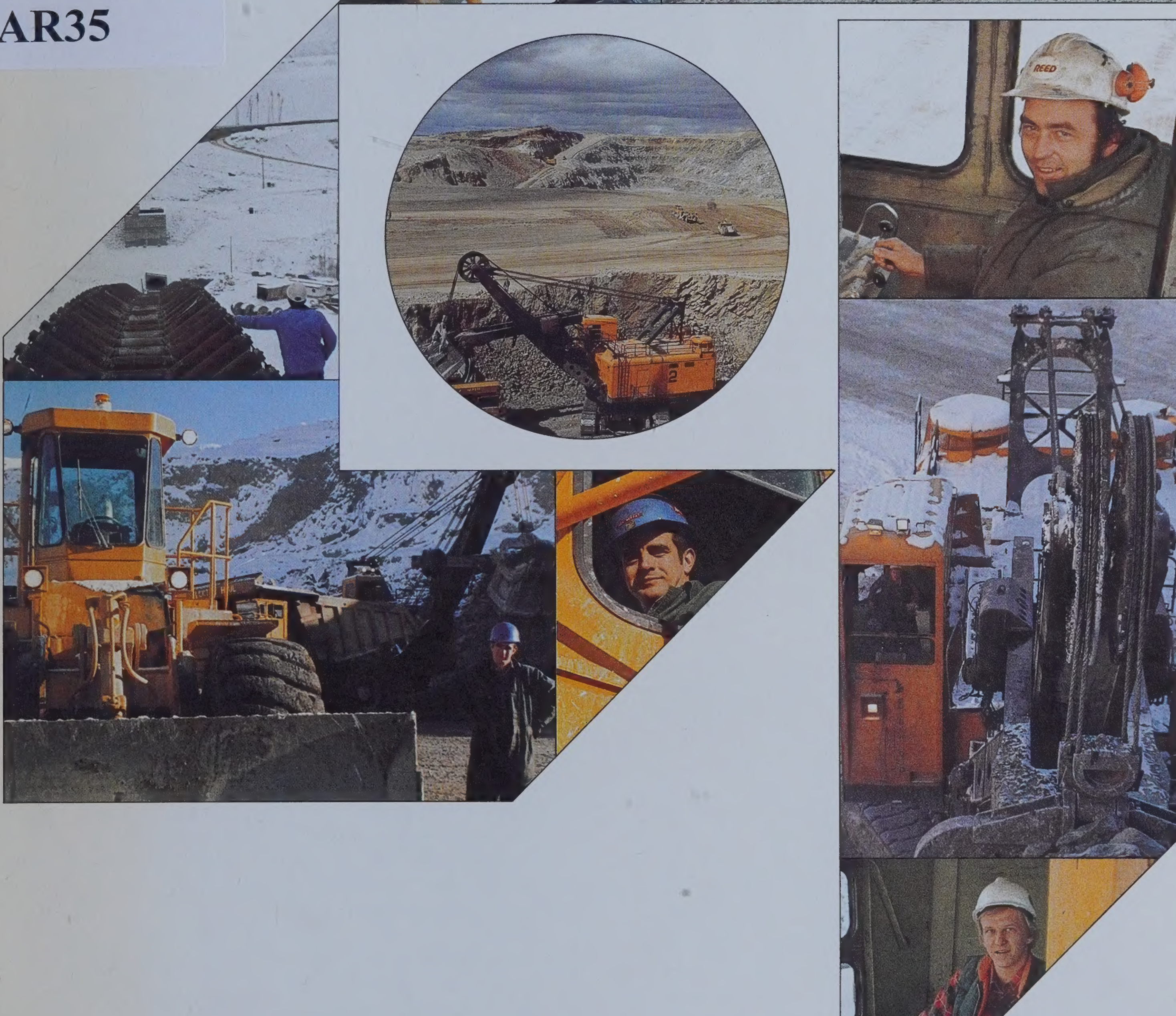
Gibraltar Mines Limited Annual Report 1979





Gibraltar Mines Limited

DIRECTORS

ROSS G. DUTHIE,
Vancouver, B.C.
President of the Company
President & Chief Executive Officer, Placer Development Limited

*ROBERT A. MATTHEWS,
Vancouver, B.C.
Manager, Ram Investments Ltd.

THOMAS H. McCLELLAND,
Vancouver, B.C.
Chairman of the Board, Placer Development Limited

JOHN M. McCONVILLE,
Vancouver, B.C.
Vice-President, Administration and General Counsel, Placer Development Limited

*JAMES L. McPHERSON,
Vancouver, B.C.
Vice-President of the Company
Senior Vice-President, Placer Development Limited

CONRAD A. PINETTE,
Williams Lake, B.C.
President, Pinette & Therrien Mills Ltd.

*ARTHUR K. POUSSETTE,
Vancouver, B.C.
Retired

*Member of the Audit Committee

OFFICERS

ROSS G. DUTHIE, President
JAMES L. McPHERSON, Vice-President
ANTHONY J. PETRINA, Vice-President, Operations
DONALD HALLAM, Secretary
JOHN RACICH, Treasurer
HOWARD F. GOUGEON, Comptroller
MICHAEL P. LEROUX, Assistant Secretary

DEPARTMENT HEADS

James Wright, Mine Manager
Douglas Bailey, Mine Superintendent
Dignus Zandee, Mill Superintendent
Jay Taylor, Chief Engineer
Ernest Brisbane, Plant Superintendent
Thomas Chadwick, Chief Accountant

OFFICES

Head Office:
700 Burrard Building
1030 West Georgia Street
Vancouver, B.C. V6E 3A8
Tel: (604) 682-7082
Telex: 04-55181

Mine Office:
P.O. Box 130
McLeese Lake, B.C. V0L 1P0

AUDITORS

Price Waterhouse & Co.
Chartered Accountants,
Vancouver, B.C.

REGISTRAR AND TRANSFER AGENT

Guaranty Trust Company of Canada, Vancouver and Toronto

ANNUAL MEETING

The Annual General Meeting of Shareholders will be held at 11:00 a.m. on Thursday, April 3, 1980 in the Tweedsmuir Room, Hotel Vancouver, 900 West Georgia Street, Vancouver, B.C.

LISTINGS

Toronto Stock Exchange
Vancouver Stock Exchange

FRONT COVER DESCRIPTION

1. Jim Fehr, driver, heavy diesel
2. One of five new 154-tonne ore trucks at work in the Pollyanna pit
3. Henry Seltenrich, rotary drill operator
4. Shovel loads 11.5 cubic metres in each pass
5. Bob Shelest, shovel operator
6. Ray Moffat, dozer operator
7. Cat 824 rubber tired dozer at working face keeps pit free of loose material
8. Conveyor will transport ore from primary crusher in Gibraltar East pit
9. Gibraltar East pit, preparation for Stage II mining underway

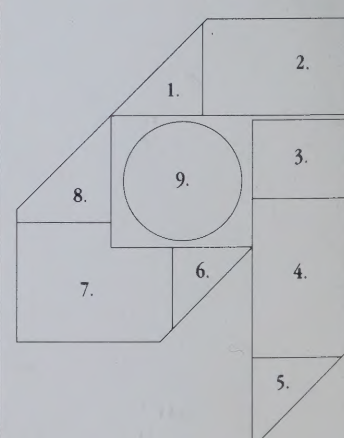
VALUATION DAY PRICE

On December 22, 1971, established as valuation day by the Department of National Revenue, the price of the Company's Common Shares was $4.70 per share.

METRIC CONVERSION TABLE

The mining industry is converting to the International System of Metric Units or "S.I." in 1980. The figures in this report are in metric units and a conversion table has been included below for reference.

Metric tonne = 2,205 pounds
Imperial ton = 2,000 pounds
Kilogram = 2.2 pounds
Hectare = 2.5 acres

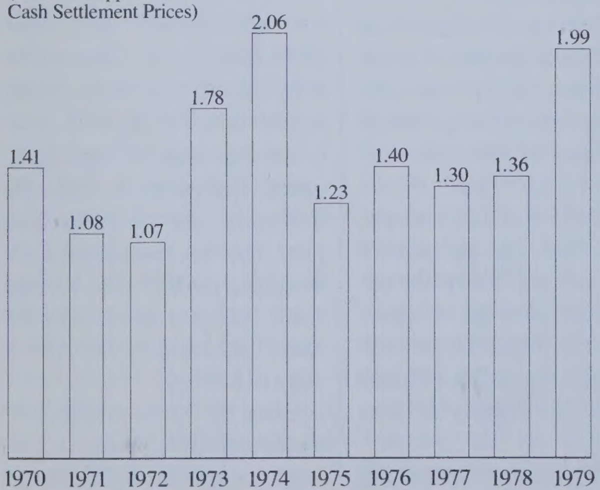


Highlights

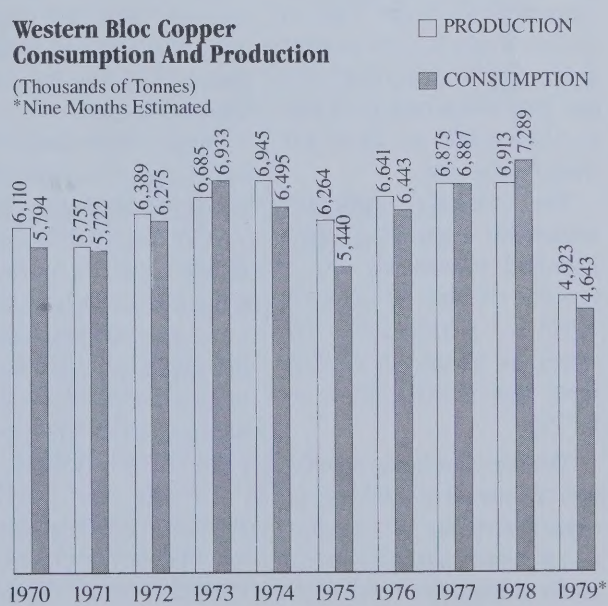
	1979	1978
FINANCIAL DATA		
Sales	**$93,911,000**	$21,478,000
Income and resource taxes	**28,360,000**	(1,495,000)
Net earnings (loss)	**33,461,000**	(2,381,000)
Working capital	**36,727,000**	15,737,000
OPERATING DATA		
Ore milled — tonnes	**10,446,000**	5,136,000
Grade — % copper	**0.42**	0.38
Recovery of copper — %	**83.38**	83.68
Copper concentrate produced — tonnes	**128,500**	60,400
Concentrate grade — % copper	**28.25**	27.04
Copper produced — kilograms	**36,287,000**	16,327,000
Molybdenum produced — kilograms	**538,300**	129,200
Copper concentrate sales — tonnes	**115,000**	74,400
Molybdenum sales — kilograms	**408,700**	119,200
PER COMMON SHARE		
Net earnings (loss)	**$2.93**	$(0.21)
Dividends	**$0.95**	—
OTHER DATA		
Number of employees	**552**	374
Number of shareholders	**2,781**	2,632
Average copper price per kilogram on London Metal Exchange — U.S.$	**1.99**	1.36
Average molybdenum price received per kilogram — U.S.$	**55.70**	9.70

(tonnes = dry metric tonnes)

Yearly Average Copper Prices
(U.S. $ per kilogram)
(L.M.E. Copper Wire Bar Cash Settlement Prices)



Western Bloc Copper Consumption And Production
(Thousands of Tonnes)
*Nine Months Estimated



Directors' Report To Shareholders

After four years of unsatisfactory financial results your Board of Directors is pleased to report that earnings for the year ended December 31, 1979 were the highest since 1973. The payment of dividends also recommenced.

Net earnings were $33,461,000 or $2.93 per share on revenues of $96,205,000. In 1978 the Company suffered a loss of $2,381,000 or $0.21 per share on revenues of $22,431,000 due to a strike that began on May 26, 1978 and halted operations for the remainder of that year.

The strike was settled on February 6, 1979 and operations soon returned to normal. The improvement in earnings was due mainly to higher prices for copper and a significant contribution from sales of molybdenum. Improved earnings enabled a dividend of $0.25 per share to be declared in the third quarter. The dividend was increased to $0.35 per share in the fourth quarter and an extra dividend of $0.35 per share was also paid at that time for a total of $10,841,000 or $0.95 per share for the year.

The Company's cash and marketable securities position improved substantially and at year-end totalled $31,212,000 (1978 — $12,031,000). The return on investment of these funds was 10.86% (1978 — 8.75%).

The mine is nearing completion of a period of major capital expenditures for the preparation of the Gibraltar East Stage II pit for mining. As a result of the Company's strong cash position these costs have been financed entirely from cash on hand. In 1980, mining activity will move to the Gibraltar East pit from the Pollyanna pit. The next period of major capital expenditures will occur in 1980, at the time of development for Stage II mining of the Granite Lake pit.

The cost of preparing the Gibraltar East pit to date has been approximately $20,600,000. It is estimated that an additional $6,600,000 will be required to complete the work in 1980. These expenditures are being capitalized and will be amortized over the period of Stage II mining. The total cost of the in-pit crusher is estimated to be $7,300,000, of which $4,200,000 was spent in 1979.

MARKETING

Refined copper consumption in Western Bloc countries increased nearly 4% to approximately 7,600,000 tonnes in 1979. Continued economic expansion was the major contributing factor.

During 1979 stocks of refined copper were reported by producers and metal exchanges to have dropped by approximately 450,000 tonnes. The continued decline in inventories was a major factor in permitting the average price for copper on the London Metal Exchange to increase to U.S. $1.99 per kilogram (1978 — U.S. $1.36).

Despite the decline in economic activity at the end of 1979 prices remained at a high level as a result of increased international tension, anticipation of seasonal consumption, and possible building up of inventories against a potential U.S. copper industry strike in mid-1980.

In 1978, Gibraltar's molybdenum was sold at the producer price; however, in 1979 unroasted concentrate sales were made at the higher merchant price. The merchant price reached record levels ranging from a low of U.S. $39.24 per kilogram of contained molybdenum to a high of U.S. $67.24. Although these prices have since declined to approximately U.S. $34.75 per kilogram, demand is expected to remain strong. All 1980 production will be shipped to Placer Development Limited's Endako Mines Division for roasting to molybdic oxide on a toll basis and will be sold at the merchant price.

MINE OPERATIONS

Operations soon returned to normal following settlement of the strike on February 6. A total of 11,297,000 tonnes of ore was mined in 1979 (1978 — 5,180,000 tonnes).

The average production of ore and waste at a cut-off grade of 0.25% was 72,800 tonnes per operating day at a strip ratio of 1.22 tonnes of low grade and waste for each tonne of ore mined (1978 — 83,300 tonnes; 1.34:1). The average rate of mining was well below the optimum rate although stripping carried out during the strike in 1978 made it possible to maintain mill throughput at near capacity.

Molybdenum production will fluctuate during the life of the mine depending on the zone being mined. During 1979, mining activity was in a zone which contained above average levels of molybdenum mineralization.

Silver occurs erratically throughout the orebody and the amounts are relatively low. Revenue from this source increased in 1979 because of the high price of silver and amounted to $1,485,000 (1978 — $523,000).

A total of 12,800,000 tonnes of overburden was stripped from the Gibraltar East Stage II orebody by a contractor from April to mid-December. An additional 8,900,000 tonnes of overburden and waste were moved by mine personnel. Approximately 9,400,000 tonnes of waste will be removed in the first half of 1980. The high availability of the five 154-tonne trucks which went into service in August contributed substantially to the improvement in the mining rate.

Construction of the Gibraltar East in-pit crushing and conveying system started in July and was approximately 70% complete at year-end. This equipment is scheduled to begin operating in March, 1980.

Pit wall instability has hampered operations in both the Pollyanna and Gibraltar East pits. This has necessitated redesigning pit walls and haulage roads and has resulted in the loss of some ore in the current stage of mining.

About 12 hectares of ground disturbed by mining activity were seeded and fertilized and

an additional 4 hectares were planted with trees. At the concentrate loading siding, the yard area was covered with soil and planted with grass to improve appearance and control dust.

CONCENTRATOR

The mill processed a total of 10,446,000 tonnes of ore (1978 — 5,136,000 tonnes) for an average rate of 33,000 tonnes per operating day (1978 — 35,400 tonnes). The average grade of ore milled was 0.42% copper (1978 — 0.38%). A total of 128,500 tonnes of concentrate (1978 — 60,400 tonnes) was produced containing 36,287,000 kilograms of copper (1978 — 16,327,000 kilograms). Copper recovery was 83.38% (1978 — 83.68%).

The molybdenum circuit operated steadily after start-up producing 538,300 kilograms (1978 — 129,200 kilograms) at an overall recovery of 45.26% (1978 — 25.82%). Modifications and tests were carried out during the year to improve recovery and to reduce operating costs.

EXPLORATION

Exploration continued in the general mine area in 1979 in an area four miles south of the plant facilities and included a nine-hole diamond drilling programme. The results in eight of these holes indicated the presence of mineralization although only three were judged to be close to commercial levels. Nevertheless, the results warrant further investigation and additional exploration will be conducted in 1980.

RESERVES

At year-end reserves of mineralized material at a cut-off grade of 0.25% and a strip ratio of 2.39:1 were estimated to be:

Zone	Tonnes	% copper	% molybdenum
Gibraltar East	103,000,000	0.36	.0078
Granite Lake	79,000,000	0.35	.0084
Pollyanna	53,000,000	0.35	.0102
Gibraltar West	8,000,000	0.40	.0084
Total	243,000,000	0.36	.0085

The tonnage mined and processed will be determined by future copper prices, operating costs and taxes.

Leases held by Cuisson Lake Mines Ltd. (in which Gibraltar has a 40.53% interest) covering part of the Granite Lake zone, containing approximately 10,900,000 tonnes at 0.37% copper, are not included in the above estimate of reserves. This material will be mined in the sequence established by the overall mining plan covering the life of the mine. No material has been mined and processed from this area since 1977.

EMPLOYEE AND COMMUNITY RELATIONS

At year-end the Company had a total of 552 employees (1978 — 374). The annual payroll and benefits cost was $10,784,000 (1978 — $6,135,000).

With the assistance of the Minister of Labour, a collective agreement was concluded between the Company and Local 18, Canadian Association of Industrial Mechanical and Allied Workers, ending the strike effective February 6, 1979. A number of issues remained outstanding and these were referred to an Industrial Inquiry Commission. Most of the outstanding disciplinary matters and the monetary issues were resolved directly between the Company and the union while the Commission was holding its hearings. All issues were finally settled September 24 when the Commission handed down its decision to apply a three month and a six month suspension in the two remaining discipline issues.

Hourly paid employees have voted to extend the labour contract to June 30, 1981. Under the extended contract there will be an increase of 5% on March 1, 1980, quarterly cost of living adjustments commencing in April, a further 3% general wage adjustment in July and improvements in shift premiums and other benefits.

A number of initiatives have been undertaken to strengthen relations with employees. These have included encouraging meetings between supervisors and crews, more comprehensive induction counselling, and seminars on personal and organizational development. Efforts have been made to improve working conditions such as more and better lunch facilities, laundering of overalls and improvements in transportation from Williams Lake.

A new second mortgage housing programme was instituted which should help to improve the long-term stability of the work force. Assistance in relocation and in finding temporary and trailer-type accommodation has also been expanded.

In September, Mr. Conrad A. Pinette, President of Pinette & Therrien Mills Ltd., was appointed as a seventh Director. Mr. Pinette is a resident of Williams Lake and his appointment will strengthen the Company's communications with the community.

Two scholarships totalling $4,000 were awarded to students in the Williams Lake area.

On behalf of the Board,

R.G. Duthie
President

Vancouver, B.C.
February 15, 1980

Balance Sheet

	December 31,	
	1979	1978
ASSETS		
CURRENT ASSETS:		
Cash and time deposits	$ 24,874,000	$ 9,938,000
Marketable securities, (1979 cost — $6,916,000; 1978 cost which approximates market value)	6,338,000	2,093,000
Accounts receivable	10,847,000	324,000
Concentrate inventories	3,003,000	254,000
Materials and supplies	5,285,000	4,851,000
	50,347,000	17,460,000
DEPOSITS AND MORTGAGES RECEIVABLE	853,000	1,509,000
PROPERTY, PLANT AND EQUIPMENT (Note 2):		
Buildings and equipment	45,591,000	39,728,000
Mining properties and development	27,475,000	10,185,000
	73,066,000	49,913,000
	$124,266,000	$68,882,000

	December 31, 1979	1978
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	**$ 6,753,000**	$ 1,323,000
Income and resource taxes payable	**6,867,000**	400,000
	13,620,000	1,723,000
DEFERRED INCOME AND RESOURCE TAXES	**25,175,000**	4,308,000
SHAREHOLDERS' EQUITY:		
Share capital —		
Authorized, 12,000,000 common shares of $0.50 par value		
Issued, 11,411,469 shares	**5,647,000**	5,647,000
Earnings reinvested in the business	**79,824,000**	57,204,000
	85,471,000	62,851,000
	$124,266,000	$68,882,000

APPROVED BY THE BOARD:

R. G. DUTHIE, Director
J. L. McPHERSON, Director

Statement of Earnings
(Note 5)

	Year ended December 31, 1979	1978
REVENUES:		
Copper concentrate sales	$67,279,000	$20,177,000
Molybdenum concentrate sales	26,632,000	1,301,000
Interest and other income	2,294,000	953,000
	96,205,000	22,431,000
EXPENSES:		
Cost of concentrate sales	28,605,000	21,304,000
Depreciation and depletion	4,998,000	4,320,000
General and administrative	781,000	683,000
	34,384,000	26,307,000
Earnings (loss) before taxes	61,821,000	(3,876,000)
INCOME AND RESOURCE TAXES:		
Current	7,493,000	85,000
Deferred	20,867,000	(1,580,000)
	28,360,000	(1,495,000)
NET EARNINGS (LOSS)	$33,461,000	$(2,381,000)
Earnings (loss) per share	$ 2.93	$ (0.21)

Statement of Earnings Reinvested in the Business

	Year ended December 31, 1979	1978
BALANCE, BEGINNING OF YEAR	$57,204,000	$59,585,000
Net earnings (loss)	33,461,000	(2,381,000)
	90,665,000	57,204,000
Dividends — $0.95 per share (1978 — nil)	10,841,000	—
BALANCE, END OF YEAR	$79,824,000	$57,204,000

Statement of Changes in Financial Position

	Year ended December 31, 1979	1978
FINANCIAL RESOURCES WERE PROVIDED BY:		
Net earnings (loss)	**$33,461,000**	$ (2,381,000)
Add (deduct) items not involving working capital —		
Depreciation and depletion	**4,998,000**	4,320,000
Deferred income and resource taxes	**20,867,000**	(1,580,000)
Gain on disposal of property, plant and equipment	**(709,000)**	(32,000)
Total from operations	**58,617,000**	327,000
Disposal of property, plant and equipment	**1,290,000**	125,000
Deposits and mortgages receivable	**656,000**	113,000
	60,563,000	565,000
FINANCIAL RESOURCES WERE USED FOR:		
Dividends	**10,841,000**	—
Buildings and equipment	**10,409,000**	952,000
Mining properties and development	**18,323,000**	2,531,000
	39,573,000	3,483,000
Increase (decrease) in working capital	**20,990,000**	(2,918,000)
Working capital, beginning of year	**15,737,000**	18,655,000
Working capital, end of year	**$36,727,000**	$15,737,000

INCREASE (DECREASE) IN WORKING CAPITAL COMPONENTS:		
Cash and time deposits	**$14,936,000**	$ 4,976,000
Marketable securities	**4,245,000**	603,000
Accounts receivable	**10,523,000**	(6,155,000)
Concentrate inventories	**2,749,000**	(3,294,000)
Materials and supplies	**434,000**	(402,000)
Accounts payable and accrued liabilities	**(5,430,000)**	1,300,000
Income and resource taxes payable	**(6,467,000)**	54,000
Increase (decrease) in working capital	**$20,990,000**	$ (2,918,000)

Notes to Financial Statements

December 31, 1979

1. Accounting policies:

Foreign currency translation

Accounts in foreign currencies are translated into Canadian dollars. Current assets and current liabilities are translated at year-end rates. Revenues and expenses are translated at the rates applicable at the time of the relevant transactions.

Marketable securities

Marketable securities are valued at the lower of cost and market value.

Inventories

Concentrate is valued at the lower of cost and net realizable value; cost is determined on a first-in, first-out basis. Materials and supplies are valued at the lower of cost and replacement cost; cost is determined on a moving-average basis.

Property, plant and equipment

Depreciation is provided on the cost of assets over their estimated useful lives on the following annual bases:

— buildings and machinery on a straight-line basis at the rate of 3%, (see Note 2), and

— mobile equipment on a diminishing-balance basis at rates of 15% to 36%.

Depletion of the cost of mining properties and development incurred during the preproduction period is provided on a straight-line basis over twenty years, which is less than the estimated life of the mine.

The cost of overburden removal for specific large projects is capitalized as Mining properties and development and is charged to earnings as depletion expense on a unit-of-production basis.

Revenue

Concentrate revenue is recognized at the time of sale. However, copper concentrate sales not finalized at year-end have been recorded at prices estimated to be in effect on finalization dates.

Deferred income and resource taxes

Income and resource taxes are recorded on the tax allocation method. Under this method, taxes reflect the effect of timing differences which arise when certain costs, principally depreciation and depletion, are recorded in different time periods for accounting purposes than for tax purposes.

2. Property, plant and equipment:

	December 31, 1979	1978
Buildings and equipment —		
Cost —		
Buildings and machinery	**$56,836,000**	$52,837,000
Mobile equipment	**20,517,000**	15,599,000
	77,353,000	68,436,000
Accumulated depreciation —		
Buildings and machinery	**18,450,000**	17,065,000
Mobile equipment	**13,312,000**	11,643,000
	31,762,000	28,708,000
	$45,591,000	$39,728,000
Mining properties and development -		
Cost —		
Mining properties	**$ 3,534,000**	$ 3,527,000
Development	**29,795,000**	10,451,000
	33,329,000	13,978,000
Accumulated depletion —		
Mining properties	**1,286,000**	1,120,000
Development	**4,568,000**	2,673,000
	5,854,000	3,793,000
	$27,475,000	$10,185,000

In 1979, the Company incurred costs of $19,117,000 for Development and $4,163,000 for Buildings and equipment to prepare the Gibraltar East pit for production.

Depreciation rates have been reduced as a result of extending the estimated useful lives of buildings and machinery to reflect the remaining ore reserves. This change has had no significant effect on the 1979 net earnings.

3. Income and resource taxes:

At December 31, 1979, earned depletion of approximately $4,000,000 (1978 — $13,400,000) was available to reduce taxable income in future years.

4. Remuneration of directors and senior officers:

Aggregate direct remuneration paid by the Company to its directors and senior officers in 1979 amounted to $251,000 (1978 — $201,000) of which $13,000 (1978 — $14,000) consisted of fees paid to directors.

5. Operations:

Mine operations were halted by a labour dispute which lasted from May 26, 1978 to February 6, 1979.

Auditors' Report

To the Shareholders of Gibraltar Mines Limited:

We have examined the balance sheet of Gibraltar Mines Limited as at December 31, 1979 and the statements of earnings, earnings reinvested in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
Chartered Accountants

January 25, 1980
Vancouver, B.C.

Eight Year Summary

Years Ended December 31	**1979**	1978	1977	1976	1975	1974	1973	1972
Concentrate sales	**$93,911,000**	$21,478,000	$40,452,000	$26,570,000	$39,556,000	$61,367,000	$96,836,000	$29,457,000
Cost of concentrate sales	**28,605,000**	21,304,000	35,998,000	20,686,000	32,352,000	30,140,000	26,518,000	12,863,000
Depreciation and depletion	**4,998,000**	4,320,000	4,698,000	4,960,000	5,320,000	5,298,000	6,081,000	4,211,000
Interest on long-term debt	**—**	—	—	—	—	—	3,395,000	3,352,000
Income and resource taxes	**28,360,000**	(1,495,000)	(227,000)	419,000	2,008,000	8,866,000	7,799,000	319,000
Net earnings (loss)	**$33,461,000**	$ (2,381,000)	$ (142,000)	$ 943,000	$ (376,000)	$17,302,000	$52,509,000	$ 8,352,000
Earnings (loss) per share	**$ 2.93**	$ (0.21)	$ (0.01)	$ 0.08	$ (0.03)	$ 1.52	$ 4.60	$ 0.73
Dividends per share (11,411,469 shares outstanding)	**$ 0.95**	—	$ 0.50	$ 0.15	—	$ 1.00	—	—
Ore milled — tonnes	**10,446,000**	5,136,000	12,765,000	7,672,000	10,388,000	12,154,000	13,682,000	9,854,000
Grade — % copper	**0.42**	0.38	0.38	0.45	0.43	0.40	0.48	0.46
Copper concentrate produced — tonnes	**128,500**	60,400	140,200	111,000	144,000	151,300	192,700	119,800
Copper produced — kilograms	**36,287,000**	16,327,000	39,364,000	28,895,000	37,902,000	40,935,000	55,248,000	36,298,000
Molybdenum produced — kilograms.	**538,300**	129,200	141,000	—	35,400	338,200	223,900	—

(tonnes = dry metric tonnes)

Gibraltar Mines Limited

Annual Report 1979

LITHO'D IN CANADA
AGENCY PRESS LIMITED